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2009 JAN 29 P 2:47

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
PAUL NEWMAN
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BOB STUMP

Arizona Corporation Commission

DOCKETED

JAN 29 2009

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IN THE MATTER OF THE GENERIC
PROCEEDING CONCERNING
ELECTRIC RESTRUCTURING ISSUES.

Docket No. E-00000A-02-0051

IN THE MATTER OF THE GENERIC
PROCEEDING CONCERNING THE
ARIZONA INDEPENDENT
SCHEDULING ADMINISTRATOR.

Docket No. E-00000A-01-0630

**MOHAVE ELECTRIC
COOPERATIVE AND
NAVOPACHE ELECTRIC
COOPERATIVE COMMENTS ON
RETAIL ELECTRIC
COMPETITION REQUESTED BY
THE ARIZONA CORPORATION
COMMISSION**

These Comments by Mohave Electric Cooperative, Inc. and Navopache Electric Cooperative, Inc. ("Cooperatives"), supplement the Comments filed by the Grand Canyon State Electric Cooperative Association on behalf of its Arizona members. Such Comments and collective comments are adopted herein by this reference thereto.

I. General Comments: Whether Retail Electric Competition Is In The Public Interest

No, not at this time. The structures and mechanisms necessary to successfully introduce retail electric competition are not yet demonstrated to exist and do not exist in Arizona and are not expected to exist in Arizona for some time.

II. Why Are Cooperatives Different?

Cooperatives were created to serve in areas disavowed by private investor owned companies because their economics were such that shareholders could not be guaranteed a return which would meet expectations. Whether people needed electricity or not, there was no service

1 except distributed generation in the form of coal lanterns, oil lanterns, fireplaces and automotive
2 engines running on gasoline. The country was in a great depression.

3 The Rural Electric program was created during the depression to bring the benefits
4 of electricity and wide spread use in essentially rural areas and to promote public health, welfare
5 and economic growth. Certain economic principles were created in this program to make it work
6 and these continue today under the auspices of the Rural Utilities Services, an agency in the
7 Department of Agriculture.
8

9 In order for Cooperatives to secure the benefits of financing electric power plant
10 construction and electric distribution system construction and operation in mostly remote and rural
11 areas and in those areas which are urbanizing, Cooperatives rely on the Rural Utilities ("RUS")
12 which, as a Federal lender, requires a comprehensive study of need and a pay-back analysis and
13 giving of a mortgage before making a loan; and the National Rural Utilities Cooperative Finance
14 Corporation ("NRUCFC") and co-bank which, as supplemental lenders to Cooperatives, all require
15 collateral for the loan, territorial integrity, and a pay-back analysis and a mortgage subordinated to
16 the financing of RUS. Most Arizona cooperatives rely on these sources of financing. One of the
17 conditions for lending money to these rural electric cooperatives is that they demonstrate to the
18 lenders a need for the facilities and an ability to repay the loan based on territorial integrity and a
19 solid customer base. It is the territorial integrity of the service area of the Cooperative with a solid
20 customer base that acts as a partial guarantee of the fiscal security of the loan and its ability to be
21 repaid. Absent a guarantee of service area integrity and fiscal integrity, financing of the needs of
22 most Arizona cooperatives would be impossible or improbable. There would be no guarantee or
23 assurance to lenders of revenues from consumers sufficient to repay the cost of power production
24 and facility infrastructure. The Cooperatives have grave doubts as to whether retail electric
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1 competition introduced at this time of economic depression will benefit rural Arizona.

2 Competition in the electric industry does not, in and of itself, automatically carry benefits to
3 consumers. Experience in the airline, banking and telecommunications fields demonstrates that
4 such initiatives usually leave rural areas unserved or underserved.

5 Theoretically, competition supplies goods and services efficiently and at a lower
6 cost. However, the lessons of competitive generation experiments in California, Texas,
7 Pennsylvania and elsewhere are that competition does not necessarily bring benefits; instead, many
8 have found that its burdens can be substantial. In fact, the Cooperatives are not aware of any state
9 in the nation where competition could be used as a model or labeled as a success.

11 None of the current Electric Service Providers ("ESPs") have applied to the ACC
12 for a CC&N to serve residential and small commercial customers due to their low load factor and
13 profitability. As a result, the most profitable, higher load factor, large customers (important to the
14 community of cooperative customers) will be the target market of the ESPs. If ESPs receive
15 CC&Ns from the ACC and competition is allowed to proceed in Arizona, the few large customers
16 will be "skimmed" or "cherry-picked" from each cooperative's service area. The unintended
17 consequence of this is to burden the member owned system customers who remain. Due to the
18 rural nature and low number of commercial loads on the Cooperative's systems, any loads lost will
19 result in the remaining customers having to pay that portion of the fixed costs that was previously
20 being paid by customers who choose direct access. Allowing the large customers to use direct
21 access and the resulting shift in fixed costs to the remaining customers cannot be considered in the
22 public interest of all customers. While the Cooperatives are continuously looking for ways to
23 lower costs for all consumers, retail competition may decrease the costs for some but will
24 eventually increase the costs for others.

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2 The Cooperatives believe that if competitive wholesale and retail markets are
3 developed in Arizona, the focus should be on the service areas served by APS, SRP and TEP
4 where conditions are more favorable to competition. The Cooperatives serving the rural areas of
5 the State should be exempted from the ACC's Retail Electric Competition Rules, at least in the
6 near term until competition is demonstrated to be feasible and can be introduced in the
7 Cooperatives' service territories without adverse impact.
8

9 The Retail Electric Competition Rules ("Rules") should be repealed as set forth in
10 the Cooperatives' Comments for the reasons set forth therein and in these Comments.

11 **III. Cooperatives Comments on Potential Risks and Benefits of Retail Electric**
12 **Competition**

13 In general, the rural areas are at a particular risk for reasons explained previously.
14 Rural areas are generally not desirable markets. Further, the adverse impact on the fiscal integrity
15 of the rural electric cooperative from loss of certain desirable and margin producing loads which
16 help sustain the fiscal integrity of the member-owned cooperative business drives up costs for
17 remaining financially unattractive and costly to serve customers. Managing those risks requires a
18 recognition of these issues and special treatment concerning rural areas. The Cooperatives believe
19 that Retail Electric Competition will not benefit rural Arizona and will only bring rate instability to
20 these areas and a threat to the fiscal integrity of the cooperatives. Rate instability is an inherent
21 risk in a truly free market. There is little that the Commission can do to minimize these risks
22 without re-regulation.
23

24 Since the Cooperatives have only a few large loads and high load factor customers,
25 competitive aggregators will most likely target and "cherry pick" these customers. No new
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1 suppliers will find it profitable to aggregate the small but widely dispersed customers of the
2 Cooperatives (5 – 15 customers per mile). Cooperatives, by their very nature of being “member-
3 owned” are the aggregation entity. But unlike competitive (“investor-owned”) ESPs, not-for-profit
4 cooperatives are not in the business of returning a profit to investors, but instead, repatriate, where
5 possible, margins to consumers. This is the only reason why electric service is possible in rural
6 Arizona in the first place. Positive margins are returned to consumers which lowers the cost of
7 electric service whenever possible.
8

9 **IV. Shopping Risk – Provider of Last Resort**

10 Both the risk and cost associated with shopping is sufficiently high so as to deter
11 many small residential and commercial loads from undertaking the assignment. The Cooperatives
12 believe that cost associated with shopping is not the most important factor to customers in making
13 a competitive choice. What is most important to customers is electric service predictability and
14 reliability and reasonable rates over the long term. For example, if customers could save 15
15 percent by choosing a competitive supplier but by doing so could be exposed to the risk that their
16 costs could double at some time in the future, customers will not choose a competitive supplier.
17 And how does a cooperative plan for generation if it must become a provider of last resort? And at
18 what price and how is it amortized?
19

20 There are also providers of last resort risks associated with large customers who
21 leave the Cooperatives' system and then want to return at a later date. Electric System Generation
22 planning horizons span many years and cannot be modified in the span of a year to allow the return
23 of large customers. This creates reliability concerns for the Cooperatives who currently are going
24 to be the providers of last resort and who are required to serve these customers. The issues of the
25 costs to return to Standard Offer service, provider of last resort and resource planning in an urban
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1 and in a rural competitive environment must all be addressed (and have not been) before
2 competition can proceed.

3 **V. Costs To Be Recovered**

4 Finally, the issue of the costs to hire employees and modify accounting, billing and
5 other systems to accommodate retail competition in the Cooperatives' service areas must be
6 addressed. Currently APS and TEP need to recover millions of dollars of these types of costs from
7 their customers with no corresponding benefits. The Cooperatives will incur costs for retail
8 competition. Costs will be significant and paid by all the member customers for the benefit of only
9 a few large customers who will be offered and able to choose competitive suppliers.
10

11 DATED this 29th day of January, 2009.

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23 29th day of January, 2009, to:

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